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Mesly, Oliver; Lévy Mangin, Jean-Pierre; Racicot, François-Éric

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The Emotional Edge of Financial Predators: a Four Group Longitudinal Study

Olivier Mesly*, Jean-Pierre Lévy Mangin* y François-Éric Racicot**

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* University of Québec in Outaouais, Quebec, Canadá.

** Telfer School of Management, University of Ottawa, Canadá.

Email: olivier.mesly@uqo.ca;

Jean-pierre.levy-mangin@uqo.ca y

racicot@telfer.uottawa.ca

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El borde emocional de los depredadores financieros: una investigación longitudinal con cuatro grupos

Resumen. En los últimos años, los inversionistas han sido engañados por sus propios expertos financieros. A pesar de las advertencias de las organizaciones reguladoras, como la Comisión de Seguridad de Valores Mobiliarios o los informes publicados por periódicos y revistas especializados, muchas personas se sienten atrapadas en los esquemas de Ponzi. La pregunta es ¿por qué? En este trabajo se plantea la hipótesis de que gran parte de los inversionistas basó sus decisiones en torno a los asesores o agentes financieros poco escrupulosos que capitalizaron la emoción primitiva. Se realiza una investigación longitudinal con cuatro grupos para un periodo de seis meses en donde se muestra que la gente se involucra en la negociación financiera con el corazón, no sólo con sus pensamientos y calculadoras.

Palabras clave: depredación percibida, modelo Mesly, depredador, presa, afinidad.

Abstract. In the last few years, a number of investors from all walks of life have been duped by their once-trusted financial advisors. Despite warnings by regulatory bodies such as the Security Exchange Commission or educated reports published by newspapers and magazines, people still get caught in the likes of Ponzi schemes. The question is why? This paper hypothesizes that a large part of the blind eye turned onto financial advisors and brokers finds its source in primitive emotion. A four-group longitudinal study spread over six months shows that people engage in financial negotiation with their hearts and guts, not only with their thoughts and calculators.

Key words: perceived predation, Mesly model, predator, prey, affinity.

Context

The average investors choose a financial advisor based on recommendation, habit (he already deals with a particular bank that offers financial advice for example), or mere reputation. In doing so, they believe they will receive timely, accurate, easy-to-understand and complete information. As information is transferred from its source (the financial advisor) to its target (the eager investor), trust tends to develop. This phenomenon has been known for many years. As Deutsch (1958: 274) put it: “[...] 80 per cent of the subjects who received the full communication treatment trusted the other person and

made co-operative choices (e.g. they were ‘trustworthy’ as well as ‘trusting’)”.

However, newspapers abound of stories whereby investors have been emptied of their life savings by cold-tempered individuals. Individuals and companies alike are victims of such fraud: Nick Leeson vs. Barings (the oldest British bank that was forced into bankruptcy) in a case in point.

People have had plenty of warnings and read quasi daily about financial crooks that build pyramid schemes, create false companies, sell valueless shares and print mock documents. Yet, there isn’t a week without which one reads on the AMF (*Autorité des Marchés Financiers* –the regulatory

body in the province of Québec: 7 millions inhabitants) site about a new investigation being launched or a new charge being laid.

The theory of financial predation provides a sound model for explaining the mechanisms predators and preys as they interact over time. Of particular interest, this theory states that people will tend to trust others independent of contractual agreements as a natural social tendency (Mesly, 2010).

This paper investigates why people get trapped in financial deals that cost them dearly. The first section discusses the concept of financial predation. Next, it addresses the concept of trust and of its measurement. A reference is made to the attachment theory (Bowlby, 1973), and the concept of Affinity is proposed as a proxy for the concept of attachment. The paper continues by outlining the details of a four-group study aimed at discovering more about the reason as to why people trust their financial advisor: the basic premise is that a financial advisor builds an edge over his customers (perhaps unconsciously) by nurturing attachment before or at least while appealing to their cognitive capabilities. Results of the study are disclosed with key observations made and commented with respect to previous researches. A discussion follows and the conclusion then puts the present research in perspective with respect to its limits and possibilities.

1. The concept of financial predation

Predation is the act of taking advantage of a negotiating party or a vis-à-vis (e.g. a customer or a colleague) for one's own benefit, causing the other harm (e.g. a financial loss), *by surprise* (Mesly, 2012).

Perceived predation is the mechanism by which people prepare themselves in case the vis-à-vis turns out to have negative intentions (Smith, 1998): it is to the relationship customer-financial broker what perceived risk is to the rela-

tionship customer-product. The product might fail just like a financial advisor may be erroneous in his evaluation of the financial market or else bluntly dishonest.

Because perceived predation entails the fact that one can be abused by another person, and because it involves a sense of harm and danger, it touches on very basic, primal emotions and instinct responses (flight or flee). Hence, using perceived predation (how it is measured will be discussed further below) seems to be a useful means of measuring deep emotions residing inside the client when facing the financial-to-be predator: in other words, the more the financial expert equates with danger, the more negative emotions will be expressed by the clients (by the participants in the study). The mere strength of these emotions will help elucidate whether clients engage in a relationship with potential financial predators on the basis of emotions rather than as calculative, placid investors.

The theory of financial predation is based on the following model (figure 1).

As can be seen, a negative perception of the financial agent (high perceived predation or the fact of perceiving the financial agent as a risk to one's own financial wealth) will have a direct impact on trust. Trust and cooperation work hand in hand in a continuous relationship (Larson, 1992; Anderson and Narus, 1990; Brooks and Rose, 2008), the likes of a financial advisor and his clients being in touch on an on-going basis. A sense of win-win (equilibrium – Anderson and Weitz, 1989) serves as a mediating variable, and together, trust, cooperation and a sense of reciprocity should eventually create a pleasant interaction between the financial advisor and his clients, with present cooperation being the main driver of present atmosphere.

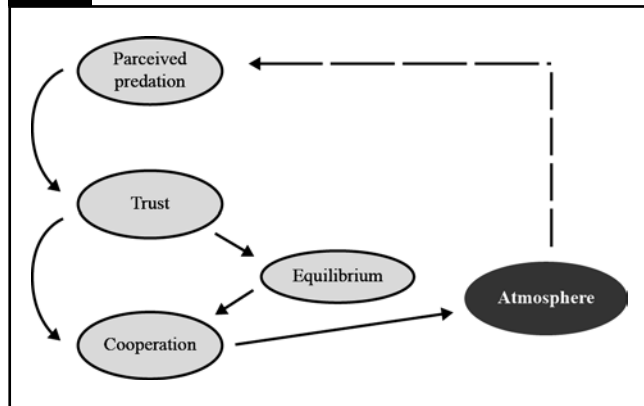
The present paper uses this model of financial predation as a base for its investigation. However, since trust is at the heart of the proposed mechanism whereby naïve investors get lured by greedy financiers, our focus should now rest with the construct of trust.

2. Definition and measurements of trust

There exist countless definitions of trust, with a one being favoured in this paper. Mayer, Davis and Schoorman (1995: 712) write:

“The definition of trust proposed in this research is the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party”.

Figure 1. The original Mesly model of financial predation.



This definition has echoes in various other definitions. For example, Lewicki, McAllister and Bies use the term expectations and add (1998: 39): “In our analysis, we define trust in terms of confident positive expectations regarding another’s *conduct*,¹ and distrust in terms of confident negative expectations regarding another’s conduct.”

These definitions correlate strongly with the concept of perceived predation, as predation is the fact of taking an undue advantage using other people’s vulnerability. In other words, when trusting a financial advisor, a client consciously (or not) agrees to let his guard down and to become vulnerable; this of course could open the doors to actual acts of financial predation.

This definition needs to be more succinct in order to better analyse the mechanism whereby a financial advisor gains an edge over his naïve clients in order to commit his financial sins. Bell, *et al.* (2002) note that trust is defined by benevolence, ability (i.e. competence – see also Ravald and Grönroos, 1996) and integrity. Nicholson, *et al.* (2001) add that Affinity plays a great role in building trust. They define Affinity (or liking) as: “[...] the global attachment that the buyer has for the rep” (2001: 5). They find a positive relationship between Affinity and trust. Doney and Cannon had also previously made such link (1997: 40): “Empirical studies in business marketing show that feelings of trust in the salesperson are positively related to liking”. Smith (1998: 7) adds a perspective by commenting that liking serves to keep a better balance (equilibrium) in a business relationship.

2. 1. Trust and attachment

All in all, it seems four variables can be taken into account in order to define trust between a financial agent and his client. A strong variable seems to be *liking*, or put differently, Affinity or attachment. The attachment theory was based on original work by Bowlby (1973) whereby he looked at the bonding between mother and “child” among a population of monkeys. The concept of attachment is very strongly related to trust and rooted deeply into the neurobiological functioning of mammals (at the hypothalamus level, which detects danger and regulates key vital functions, in addition to being involved indirectly in odour detection).² A concept similar to liking is that of familiarity (although it could have a negative connotation depending on context). In essence, familiarity refers, in the context of financial investment, to the fact that people will more readily invest where they are already acquainted with the companies at stake (Wang *et al.*, 2011).

Several studies (some spanning several decades) have demonstrated that secure individuals tend to stay married longer –in other words, attachment is a good predictor of the length of a relationship (Mikulincer *et al.*, 2002). It has been found that couples that display secure emotional commitment, intimacy, trust and communication are more accommodating and caring than others.

Accepting that Affinity (as a proxy for attachment) is one of the key variables defining trust could help explain why that trust and cooperation persist even in difficult times (Wiener and Doescher, 1994).³ Trust shows different degrees of intensity and the following barometer has been proposed (Mesly, 2012) (figure 2).

Financial agents will bet on unconditional trust and to all they can to instil it: most likely, they will favor attachment by displaying high degrees of affinities with their clientele. Of peculiar importance to them is to avoid entering in the conflict zone, marked by levels of relationship tension that ultimately lead to predation: a) frustration (Bobot, 2010); b) provocation, and c) aggression (Van Goozen *et al.*, 2000).

As can be seen, this barometer is an indication of strong emotions (e.g. frustration) and was used to develop the questionnaire that was distributed to the participants.

We propose next a working model for trust which will serve to test the Mesly model of financial predation.

Figure 2. The barometer of trust.

	Agression	Zone of conflict
	Provocation	
	Frustration	
	Indifference	Zone of confort (good interaction atmosphere) - Affinity assumed
	Random trust	
	Conditional trust	
	Unconditional trust	

1. Lewicki *et al.* (1998) put the text in *italic*.

2. See Mikulincer and Shaver, 2007.

3. We emphasize that attachment, as discussed here, is to be differentiated from interdependence. The latter would be a pre-condition to establishing a relationship; in the present discussion, attachment likely develops as trading parties discover affinities. Our narrow definition of attachment and the use of Affinity as a proxy for attachment are two of the limits of the present research.

3. The model of trust

Four structural variables⁴ are assumed to be needed to define trust in full; hence we propose the following model of trust (figure 3).

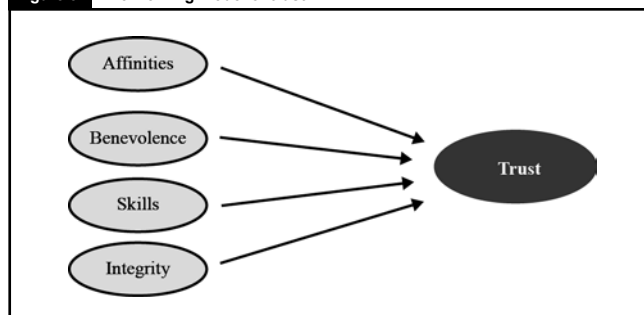
The use of four variables to measure trust is in line with past recommendations. As Anderson and Gerbing (1988: 414) state: “[...] at least four measures of a construct are needed for an assessment.”

Our working model will necessarily involve a measure of cooperation (as cooperation works hand in hand with trust), of trust (including Affinity as a proxy for attachment) as well as perceived predation (as it affects trust through the concept of vulnerability). The working model is completed by taking into account the fact that high levels of trust, cooperation and a sense of win-win should produce a sound, pleasant relationship atmosphere between the financial expert and his client. As noted previously.

Successful behavioural exchanges are accompanied by positive moods and emotions, which help to cement the experience of trust and set the scene for the continuing exchange and building of greater trust (Jones and George, 1998: 536).

Every element of the model has now been explained and is in place with its respective links to other elements (constructs). A study needed to be planned to examine the problem at hand, that is, the fact that investors get lured by financial predators.

Figure 3. The working model of trust.



4. To relate fully to the concept of structural variables, see the works of Mesly (2010) and the concepts of formative variables exposed by Jarvis, MacKenzie and Podsakoff, (2003). The following conditions are met: a) little if not co-linearity between variables; b) changing or retiring one variable would seriously alter the meaning of the core concept (Bollen and Lennox, 1991: 308: "Omitting an indicator is omitting a part of the construct").
5. To compare means, independent T-tests were run after checking for normality of populations (Kolmogorov-Smirnov KS and Shapiro-Wilk SW tests) and residuals (Levene test).

4. The study

As seen above, we decided to use Affinity as a proxy for attachment, although Affinity is a weaker measure of attachment. The hypothesis is that people are not going to feel any form of attachment if they experience some form of repulsion towards a vis-à-vis; hence, a measure of Affinity is a preliminary measure for attachment. Since the goal of this study is to determine, based on the samples available, if emotions (and in particular attachment) play a large part in the dyadic dynamic between individuals involved in a business deal, our focus will be on looking for the role of Affinity in the overall MESLY financial predation model. Our hypothesis, to recall, is as follows:

- H_0 : Affinity (as a proxy for attachment) plays a leading role in the dynamic between negotiating parties.
- H_1 : Affinity (as a proxy for attachment) does not play a leading role in the dynamic between negotiating parties.

In the research that was done, the level of confidence was established at 95% [$1 - \alpha (= 0.05)$]. Populations and residues \Rightarrow residuals were checked for normality in the regression analyses; no excessive co-linearity were found between the independent variables (Affinity - AF, Benevolence - BV, Ability - HB, and Integrity - IN) and the dependant variable (Good negotiating atmosphere - BE). All regressions used were found to be significant, with $p > 0.05$.

The research was conducted as follows. Four groups of two dozen students were brought into a class room between September 2011 and January 2012. Within each group, dyads were formed and asked to meet briefly during ten minutes in order for each party to get acquainted with the other. The dyads were then separated and asked to answer the MESLY questionnaire (perceived predation) – this will be referred as the BEFORE. A case for negotiation (in particular financial negotiation) was handed to the students: half received was financial role within that case (the pros) and the other half the opposite position (the cons). After spending several hours, the original dyads were asked to meet and negotiate an agreement based on their opposing views. Each member of the dyads was then asked to answer the slightly modified questionnaire once more – this will be referred as the AFTER. Since the students did not leave the classroom for a significant amount of time, it is assumed that this experiment was close in concept to a laboratory experiment, with most variables under control.

5. The results

The results listed below are only the most significant.⁵ Of note, gender, level of education and occupation (some students had employment) did not appear to be a factor in the result. The

sample size “n” was 26, 24, 25 and 28 for a total n of 103, small but enough to run a SEM on the appropriate software.

Because our study was longitudinal across four different groups, and in order to simplify the analysis of the data, we will generally proceed in the following order: a) consider the four groups BEFORE the negotiation; b) consider the four groups AFTER the negotiation; c) compare the four groups BEFORE and AFTER; d) compare the combined BEFORE-AFTER groups; e) examine the global end result for the entire set of data using structural equation modeling (SEM). We proceed by listing the most significant observations made through data analyses.

By using the approach, we feel confident that our conclusions will be robust as we will examine trends across groups, across two points in time (BEFORE and AFTER), and across various statistical techniques (regressions, factorial analyses and SEM).

6. Single linear regression analysis:

Trust => cooperation

The first element we wanted to check was the relationship between trust and cooperation, as if there were no significant links, the construct of cooperation could then be eliminated from the working model. We made a number of observations.

- Observation 1: there is a strong correlation between trust and cooperation for the Groups BEFORE and the Groups AFTER; Groups 2 and 3 display a near perfect cigar-shape form around the regression line, proving their statistical quality.

For all intent and purposes, we combined that BEFORE and AFTER data in order to get a larger sample (see annex table A1).

- Observation 2: there has been a significant improvement in the R^2 between the BEFORE and the AFTER (Group 1: 0.615 to 0.713: + 19%; Group 3: 0.652 to 0.825: + 27%; Group 4: 0.549 to 0.796: + 45%) except for Group 2 (0.890 to 0.796: -11%). We conclude that the construct of cooperation must be an integral part of the model, as it most likely influences the general dyadic relationship.

- Observation 3: the correlation coefficient obtained in the present study falls very much in line with previous studies (Anderson and Narus, 1990 with an estimator at 0.73; Morgan and Hunt, 1994); Palmatier *et al.*, (2006) did a meta-analysis leading them to the conclusion that 90 p. 100 of studies confirm the link trust => cooperation (independent variable).

- Observation 4: as mentioned, there has been a significant improvement in the Pearson coefficient (R^2) between BEFORE and AFTER (except for group 2). Since the BEFORE and AFTER occurred the same day, a few hours, apart, it is hard to believe

this adjustment was made cognitively because the negotiating parties (the students in their pros and cons roles) had little opportunity to analyse each other. Rather, they most likely had to rely on the “gut” instinct, that is, on their raw emotions. Hence, the results shown in table A4 seem to indicate that indeed emotions play a part in the dyadic exchanges.

7. Factorial analysis (Varimax rotation)

A key measure in psychological analysis is factorial analysis (Nunnally, 1970). We proceeded to run factorial analyses using Varimax rotation with 25 iterations on the main constructs. The construct of perceived predation was separated in its two components: that is, perceived predation is the ratio of *prey* (one's sense of vulnerability) over *predator* (one's ability to attack). For ease of reading, predator is always put ahead of prey in the theory of predation; hence, the ratio predator/prey is an expression of self-confidence or the opposite of the feeling of being a victim.

- Observation 5: for the groups BEFORE and the Groups AFTER, there is an inverse relationship between one's lack of self-confidence (impression of being a victim; that is, perceived predation) and the constructs of trust, cooperation, equilibrium and positive atmosphere. These results are in line with past studies performed on numerous groups (Mesly, 2010) and to confirm the law of perceived predation: the more one feels he can be victim to a financial prey, the less likely he is likely to trust, cooperate, reciprocate and participate in a positive relationship. The law is exemplified as well when we mix BEFORE and AFTER data for the sake of argument (see annex table A2).

- Observation 6: perceived predation is a very sensitive measure and seems to be an excellent way of evaluating the role of emotions in the fabrics of social interactions between a financial agent and his customers: two very distinct (components) are extracted from the data. Every single time one negotiating party feels he is in a position of power (Pred. > Prey), the values of trust, cooperation, equilibrium and atmosphere are positive. As soon as the individual feels he is at a disadvantage (more prey than predator: Pred. < Prey), the values of trust, cooperation, equilibrium and atmosphere tend necessarily to diminish radically. Even when Pred. = Prey, those values near zero. Hence, people are very sensitive to the possibility of danger.

- Observation 7: regardless of this sensitivity, investors are prompt to show unconditional trust towards their financial agents. This means –it is our hypothesis, that they act emotionally and not cognitively. Financial bandits will seize this opportunity to catch their clients-preys, by surprise.

8. Multiple linear regression analysis on structural variables of trust => atmosphere

So far, all the data collected and analysed has tended to prove the validity of the question asked in this paper. We now try determining if Affinity (the proxy for attachment) plays indeed a role in the creation of trust and of a positive interaction between the financial expert and his client. To do this, we resort to multiple regression analyses.

- Observation 8: for the Groups BEFORE, Affinity and Benevolence (two emotionally-loaded variables) play an explanatory role of the general dyadic atmosphere (BE) in the majority of cases.

- Observation 9: for the Groups AFTER and for the Groups BEFORE-AFTER combined (see annex table A3), Affinity and Benevolence (two emotionally-loaded variables) play an explanatory role of the general dyadic atmosphere (BE) in the majority of cases but Ability and Integrity play a role as well.

- Observation 8: the majority of explanatory variables of trust pertain to the emotional spectrum (ability and integrity being judged cognitively as they can be somewhat measured: ability, for example, can be guessed from the kind of university degree the other has. Emotional variables, like Affinity and benevolence, do not imply such capacity of measurement). This strongly suggests that at least during short encounters, negotiating parties rely more on their emotional senses than on their cognitive appraisal. The SEM used below will shed more light into this phenomenon.

9. Values of main constructs

We now address the values attributed (measured) to the four main constructs (table A4).

- Observation 9: for the groups BEFORE, the groups AFTER, and the groups BEFORE-AFTER, the level attained by each construct suggests a transactional dyad (in the 70%, see annex table A4), as opposed to a relational or interpersonal one (see Mesly, 2012a). Thus, taking into account previous observations, it can be suggested that emotions prevail even in short-term transactional dyads.

- Observation 10: there has definitely been a change between the BEFORE and the AFTER, but this change is most noticeable (the only significant change) on the construct of cooperation, which is highly correlated with that of trust. The setting of the study helps explaining such phenomena: the participants were involved mostly in cooperative efforts

over a short period of time and trust takes a fair bit of time to develop. This finding points to the fact that cooperation must be kept in our working model.

10. Perceived predation

We decided to compare the BEFORE and AFTER perceived predation (PP) (which we know now is a good measure of emotions or sensibility) to show the change over time (see annex table A6).

- Observation 11: these findings are in line with previous findings resulting from multiple group studies performed over a number of years (Mesly, 2010). The acceptable ratio for most people in terms of predator/prey (that is, the measure of their perceived capacity to control a situation or the reverse of their perceived predation) is approximately 1.30 (perceived predation = $1/1.30 = 0.77$).

- Observation 12: the spread between the different values increases dramatically between the BEFORE and the AFTER, and the maximum and minimum values moved up. This means that during the day of negotiation, people become more flexible, digging more into their willingness to negotiate, and allowing for a wider spectrum of variations in their mood. If it were not the case and they had remained purely cognitive in their approach, they would have maintained the same levels of perceived predation as nothing in the setting threatened them, as suggested by the previous findings that trust remained quite stable and cooperation improved. This is another clue that people use their emotional brain when negotiating, but also more of in as time goes.

11. Discussion

The previous twelve observations point to the fact that emotions prevail in negotiations (including financial negotiation). Emotions are the main resources people resort to in order to negotiate with a vis-à-vis, and as time goes, far from becoming less emotional, people expand on their emotional range. This could suggest that people develop a sense of attachment (which proxy is Affinity in our study).

It has become increasingly clear that Affinity (as a construct structurally formative of trust) cannot be separated from the concept of cooperation. This may confirm why people who tend to work together regularly eventually develop affinities even if from the upstart they seemed to have nothing in common.

Given that perceived predation, Affinity, equilibrium, cooperation and atmosphere have proven to play a key role in our working model; we decided to run a SEM test.⁶

6. Using Baron and Kenny 1986's technique, a series of regressions were thereafter run proving first that equilibrium is a mediating variable.

We had a question on intention to renegotiate in the AFTER questionnaire that was submitted to the participants. We suspect that there will be an impact first in the variables from the BEFORE evaluation to the AFTER evaluation, but also from atmosphere onto intention to renegotiate in the AFTER session. Our hypothesis, to recall, was: H_0 : Affinity (as a proxy for attachment) plays a leading role in the dynamic between negotiating parties, with H_1 being the opposite. If Affinity does not play a role on the interaction between the negotiating parties, then most likely it will not have a significant link with perceived predation, cooperation, equilibrium and atmosphere.

To start, we tested our hypothesis with a simple linear regression with Affinity \Rightarrow atmosphere (BE) for the AFTER group:^{7, 8}

$$\text{Atmosphere}_{\text{AFTER}} = 3.608 + 0.119 * \text{Affinity}_{\text{AFTER}} + \varepsilon_{\text{AFTER}} \quad (1)$$

Affinity has a direct impact on the general atmosphere,⁹ but a modest one.¹⁰ To recall, Affinity is only a proxy for attachment; also, negotiating parties only had a day to get to know each other and third, the stakes were minimal and somewhat hypothetical. Within this context, finding a modest impact of Affinity on the atmosphere outcome actually speaks volume: it may well be that financial predators can create a significant sense of attachment over time, which they could turn to their advantage when this would fit their egoistic needs. Also, this does not mean that Affinity does not have a more *direct* impact on trust as it is a key structural variable of trust.

Finding a model fit using SEM would lead to us to strongly suggest that Affinity, as a proxy for attachment, could be an explanatory variable of the behaviour of naïve investors who end up, much to their later dismay, preys to unscrupulous financial agents. The latter, as expert salespeople are consciously or unconsciously aware of this tendency towards blind trust (unconditional trust) and would capitalize on it to serve their own interests, catching their client-preys by surprise. Through the inherent vulnerability of people (a tendency to resort to raw emotions), financial bandits build a competitive edge to enrich themselves.

This could not possibly be the case if the clients were fully rational: even if they didn't have access to full information, being rational they would require full information before making decisions that affect their life savings. Rather, they expose themselves by accepting to be vulnerable and letting themselves emotionally convinced that they are not facing a financial predator. In short, a sense of attachment would be what would override cognition and lead investors to fall prey to their financial predators.

Our modeling effort using SEM shows the following (figure 4):¹¹

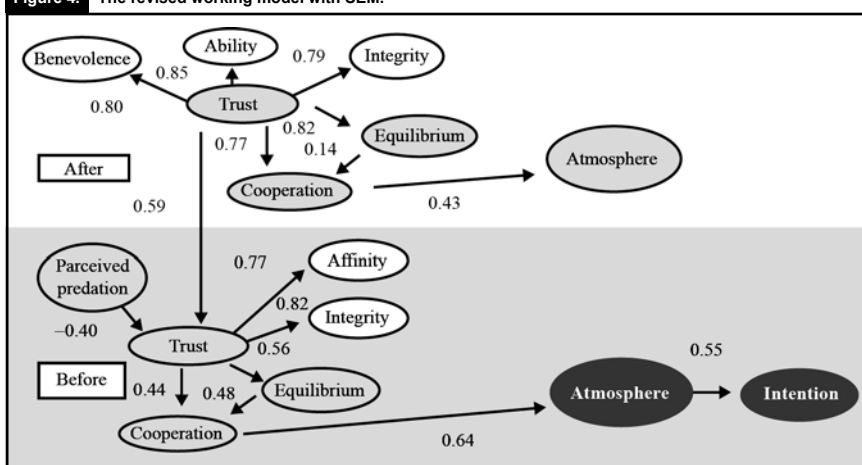
The indices for the SEM are as follows (see annex table A7):

- Observation 13: two of the measures (CFI and IFI, both incremental indices) indicate a good fit, but the overall model remains to be tested in a larger study.

- Observation 14: all four structural variables of trust (AF, BV, HB and IN) play a role at some point or the other (BEFORE and AFTER) in the establishment of a sound dyadic atmosphere.

- Observation 15: affinity's role comes in the AFTER phase. This may be due that the dyadic partners were randomly chosen during the tests, so that participants did not have the luxury of choosing whom they were going to be paired with. However, on the second dyadic meeting (the AFTER session) they then had a chance to discover more of their vis-à-vis.

Figure 4. The revised working model with SEM.



- Residuals are found to be normal. $R^2 = 0.366$; $F = 15.641$; $p = 0.000$.
- A regression on intention leads to abnormal residuals showing heteroscedasticity, thus this regression is not used.
- At the established confidence level, there isn't enough evidence to reject H_0 according to which Affinity plays a role between negotiating parties. This hypothesis thus appears to likely hold within our research framework.
- In a previous study, the main author has shown that 25% of the variance in the intention to buy a car was explained by two variables: a) the product itself; and b) atmosphere (the relationship with the staff at the dealership).
- Arrows are drawn using the SEM conventions not using standard data percolation methodology (Mesly, 2011).

• Observation 16: all four structural variables of trust (Affinity, Benevolence, Ability and Integrity) post some substantial estimator values, thus indicating their importance in the formation of trust.

• Observation 17: initial trust (BEFORE) is a key influence on current trust (AFTER), whereas past cooperative efforts and atmosphere do not exhibit influence past their having taken place. In other words, trust, which is highly emotional, plays an enduring role in the relationship. Trust is something that is built over time and that stays within the individual. Since Affinity is a key structural component of trust, it is fair to say that Affinity relates to attachment (since attachment evolves over time by definition).

• Observation 18: integrity is the only structural variable that appears in the BEFORE and AFTER sessions, pinpointing its importance in the context of negotiation.

• Observation 19: the AFTER relational atmosphere is a strong indicator of intention to negotiate again. In the context of attachment, this means the initial attachment is likely to continue if a pleasant atmosphere prevails.

For the overall BEFORE-AFTER model, the likely dyadic scenario can be expressed in the form of multiple regression analysis as follows; after verifying for multicollinearity (VIF) and correlations (table of correlations), the best regression

that comes out is in the end a single linear regression¹² as follows (equation 2):¹³

$$\text{Atmosphere}_{\text{AFTER}} = \alpha + \beta_1 \text{Cooperation}_{\text{AFTER}} + \varepsilon_{\text{AFTER}} \quad (2)$$

With the following β :¹⁴

$$\text{Atmosphere}_{\text{AFTER}} = 1.520 + 0.687 * \text{Cooperation}_{\text{AFTER}} + \varepsilon_{\text{AFTER}} \quad (3)$$

In the context of our research, cooperation is a key *direct* indicator of the general relational atmosphere. However, analyses presented at the beginning of this paper have pointed to the fact that trust played a fundamental influential role on cooperation, and Affinity has been found to be an enduring component of trust.

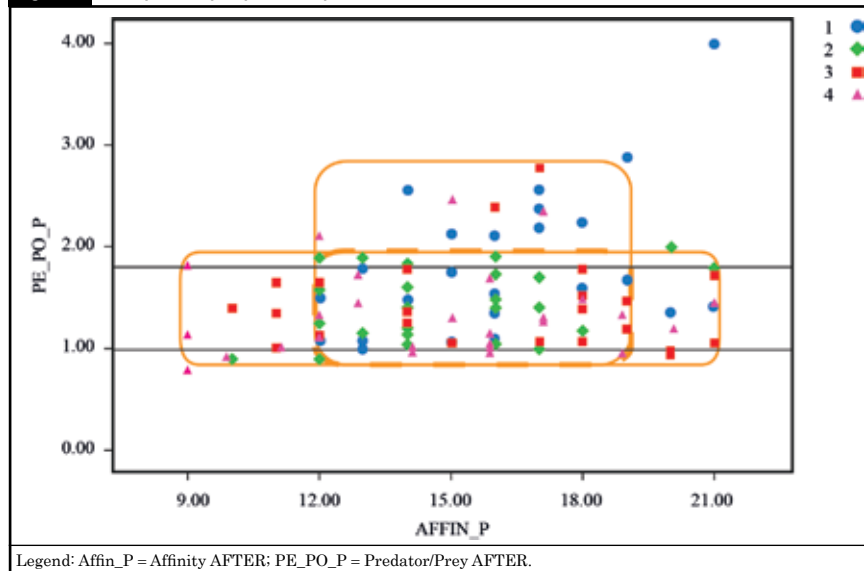
After running a cluster analysis,¹⁵ two classes of constructs seem to have formed by taking into account the construct of Affinity (see annex table A6):

• Observation 20: as can be seen from Table 6, two classes form. All numbers in class 2 are higher than class 1, but one item stands out: Affinity AFTER. This tends to go in line with the SEM model showing that Affinity started to be a significant defining component of trust in the AFTER session.

We decided to produce a perceptual map of perceived predation, because perceived predation and Affinity both appear in the AFTER session but fail to appear in the BEFORE section. The understanding is that should participant feel their vis-à-vis is a predator (overly forceful), this would negatively impact trust, which is, in the AFTER session, a result of Affinity and Integrity (figure A5).

• Observation 21: as can be seen from figure 5, almost all participants are found in the area under the threshold of predation = 1.80. They are also found in the most part above the threshold of predation >1. So, since the general negotiating atmosphere has been positive, with a value of atmosphere evaluated at a level at 78% (see table A4 in annex), it can be said that in the context of the present research, a positive atmosphere is set within levels of $1 < \text{predation} < 1.80$. Perceived predation is the 1/x ratio

Figure 5. Perceptual map of perceived predation.



12. Only linear regressions have been tested.

13. We also tested the regression model using iterated generalized method of moments/higher moments (iGMM-hm) with higher sample moments as instruments (Racicot, 2000; Racicot and Théoret, 2012) without obtaining better results.

14. Adjusted R^2 : 0.480; $F = 93.344$, $p = 0.000$; with residuals judged to be relatively normal.

15. This time, trust was measured as an average of the data collected on its four structural variables.

of predation, with acceptable levels of perceived predation set at: min: 0.56, max: 0.99 (just under 1). That is, one can live with some level of perceived predation (which can be functional to protect oneself) but the dyadic relationship likely becomes dysfunctional past a certain level (0.99).

- Observation 22: affinity seems acceptable within a range of 57% (12/21; assume 60%) on the scale used in the above figure 6 and 88% (18.5/21; assume 90%). Being too disconnected from the vis-à-vis or too intrusive does not help the relationship: it would lead the client to see the financial advisor as being a potential predator.

To summarize, Affinity has been found to play a key role in the formation of trust, but not a *leading* role. Rather, the construct of integrity seems to be the key leader amongst the four structural variables of trust (it appears in the BEFORE and AFTER sessions and exhibit higher estimators than Affinity). However, it has also been noted that Affinity is an emotional construct that builds over time. We would moderate the expression of our initial hypothesis (H_0 : *Affinity, as a proxy for attachment, plays a leading role in the dynamic between negotiating parties*; H_1 : *Affinity, as a proxy for attachment, does not play a leading role in the dynamic between negotiating parties*), by stating that Affinity plays a role, but not a *leading* role in the dynamic between negotiating parties, at least in the context set in this research.¹⁶ This can nevertheless explain why some investors end up being fooled by their financial advisor. Once integrity is seemingly acquired, a financial predator would want to build some sense of attachment with his future preys in order to gain an unfair advantage. The image of integrity (rendered for example by recommendations, annual reports, past performance) would serve as a lure to get to hook the customer/prey on a more unconscious level, that of attachment. Since financial products and highly intangible and that often substantial amounts of money are at stake, it would hard for the client to firmly understand the nature and extent of his relationship with the financial advisor.

Conclusion

This research must be considered within its limitations, some of which are the small number of participants and the fact that the setting was not a purely financial one. It has not made any attempt to develop a typology of financial predators either. Also, we used a proxy (Affinity) for attachment, which is a loose measure of it. We did this because Affinity had been proven in previous research to be a sound explanatory variable of trust.

This research points to the fact that Affinity does in fact *sooner or later* play a role in a dyadic relationship where monetary transactions are involved. It may be, and this remains to be tested with a larger, more grounded experience, that financial predators consciously and unconsciously build a form of attachment from their clientele towards them in order to eventually perform their predatory acts, that is, their fraudulent activities. The use of anything that portrays them as being of high integrity (annual reports, recommendations, etc.) is a camouflage tactic aimed at emotionally confusing their client/preys.

This research indicates that participants express their willingness to negotiate further when a reasonably sound negotiating atmosphere is set; hence, a sense of attachment would most likely continue to build. This means that as time goes, the trust put in the financial advisor would move from being random towards conditional. It is thus possible to imagine that eventually, unconditional trust would be generated; this would be the appropriate time for the financial predator to attack.

An experienced financial agent would most likely know what limits are acceptable or bearable by his clients/preys. He would operate within the lower and upper limits found in this research, and within the socially accepted scope of Affinity (not too much – that is under a threshold of 90%, that is, not being too familiar, but surely enough to generate interest, at 60% or above, that is, somehow expressing his affinities with his clients 60% of the time, or else, put differently, approximately once every half hour.) In other words, a typical half hour conversation between a financial expert and his client would contain at least one measure of Affinity (e.g. discussing things parties have in common) but not more as otherwise it would be perceived as overly intrusive. An expert predator thus has mastered the art of generating an emotionally-loaded sense of attachment by showing interest in his client, but not excessively. This zone of comfort would put his client at ease, thus enticing him to lower his defence mechanism.

It cannot be said that Affinity has a leading role in the social phenomenon whereby naïve investors end up losing their life savings to unscrupulous financiers. However, it definitely plays a role, which we now understand better. It helps creating a pleasant, trusting negotiating atmosphere and it encourages participants to want to deal with each other in the future.

16. At the established confidence level, we feel there is enough evidence to reject H_0 according to which Affinity plays a leading role in the dynamic between negotiating parties. This hypothesis thus appears to be unlikely within our research framework which consisted of two negotiating sessions spread over a one working day period.

In fact, the very fact that naïve investors continue to cooperate with their financial advisor leads them towards future abuse, when the latter is a potential predator. Additionally, it has been seen that the so-called law of perceived predation predicts that when a client feels he is vulnerable (he feels less predator than prey, or else predator = prey), he automatically reduces his amount of trust and cooperation with his financial agent. The latter has thus a keen interest in making his customer that he (the customer) has control. We hypothesize that this boost to the customer's sense of power may actually encourage some form of attachment.

Affinity was used as a proxy for attachment; it can be anticipated that a better measure of attachment would somehow bring more light into the predator-prey intricate relationship. This paper, if anything, has pointed to the fact that investors must be careful not to fall into unconditional trust, and that regulatory agencies should become more aware of the fact that financial predators may use emotional tools such as attachment in order to lure their victim. Putting a cost on such abuse through specific punishment would likely deter potential financiers and their acolytes to gear their businesses towards fraud and abuse.



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Annex

Table A1. The combined BEFORE_AFTER groups.

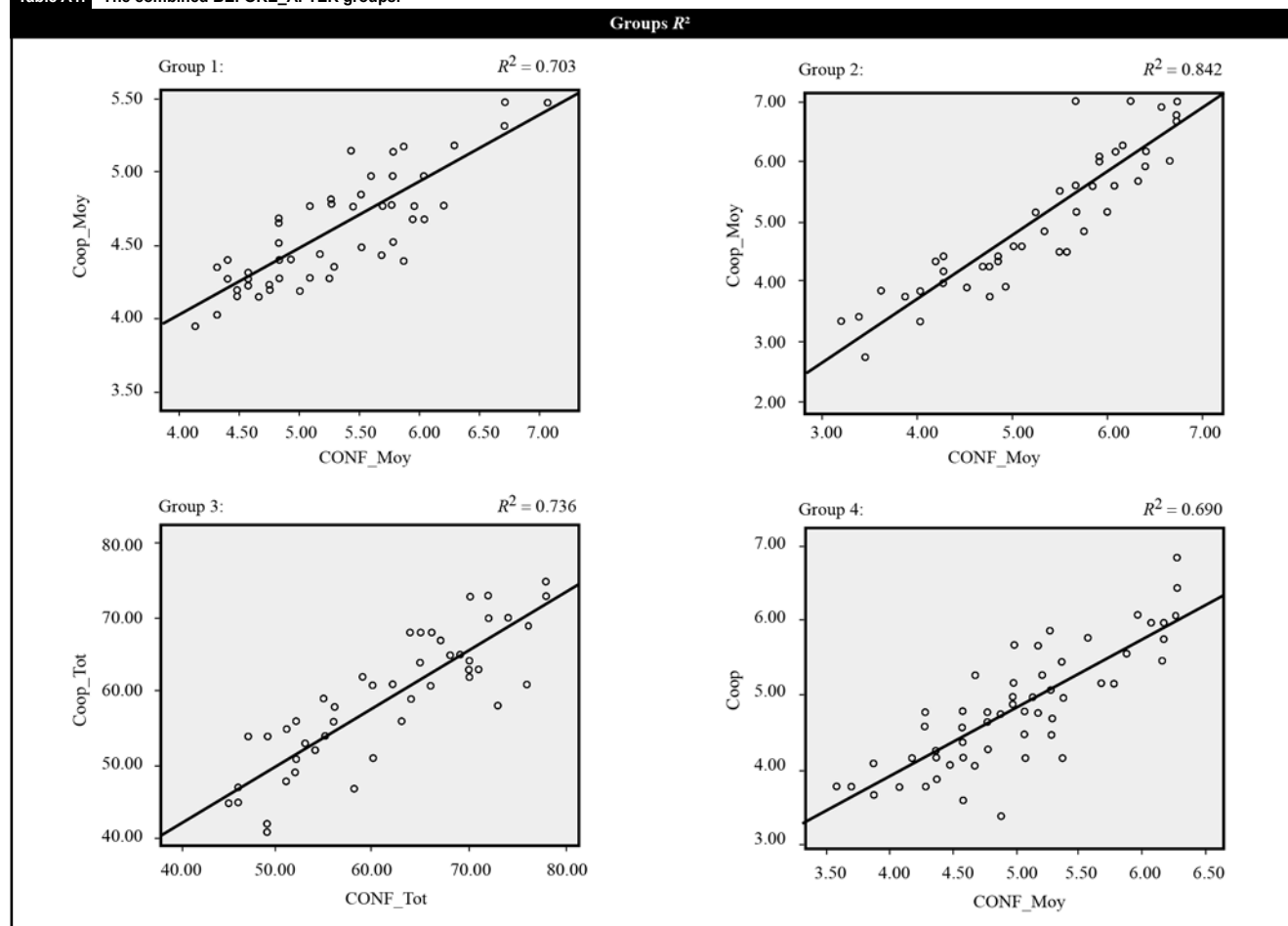


Table A2. The four COMBINED groups: factorial analysis.

ITEM/GROUP	Group 1		Group 2		Group 3		Group 4	
Component	1	2	1	2	1	2	1	2
Trust	0.909	0.200	0.916	0.256	0.945	0.012	0.902	0.026
Equilibrium	0.901	0.016	0.876	0.083	0.895	-0.040	0.921	0.059
Cooperation	0.946	-0.006	0.874	0.400	0.917	0.260	0.884	0.269
Atmosphere	0.988	0.067	0.929	0.084	0.758	-0.428	0.802	-0.087
Predator	0.167	0.914	0.428	0.806	0.123	0.871	0.215	0.821
Prey	-0.613	0.540	0.017	0.952	-0.111	0.897	-0.112	0.886
Difference Predator·Prey	Pred. > Prey	Pred. > Prey*	Pred. > Prey	Pred. < Prey	Pred. > Prey	Pred. < Prey	Pred. > Prey	Pred. < Prey
Rounded to 1 or 0	Group 1		Group 2		Group 3		Group 4	
Trust	1	0	1	0	1	0	1	0
Equilibrium	1	0	1	0	1	0	1	0
Cooperation	1	0	1	0	1	0	1	0
Atmosphere	1	0	1	0	1	0	1	0
Predator	1	1	1	1	1	1	1	1
Prey	0	1	0	1	0	1	0	1

* An exception is noticed here. Note that in the bottom part of the table, numbers are pushed to the value of either 1 or 0 to magnify the effects of predators and preys (perceived predation).

Table A3. The COMBINED groups: Multiple linear regression analysis on structural variables.

Group	Regression (all regressions have been found to be significant, to display normal populations and residues)					
	Coefficients ^{a*}					
	Modèle	Coefficients non standardisés		Coefficients standardisés	t	Signification
		B	Erreur standard	Beta		
1	1 (constante)	7.376	2.001		3.686	0.001
	AF_Moy	0.621	0.352	0.246	1.763	0.084
	BV_Moy	1.048	0.474	0.407	2.212	0.032
	HB_Moy	0.208	0.416	0.073	0.501	0.619
	IN_Moy	0.044	0.388	0.016	0.112	0.911
2	1 (constante)	3.596	1.238		2.906	0.006
	AF	0.250	0.101	0.277	2.464	0.018
	BV	0.393	0.120	0.455	3.267	0.002
	HB	0.058	0.130	0.086	0.447	0.657
	IN	0.152	0.113	0.170	1.344	0.186
3	1 (constante)	6.034	1.820		3.315	0.002
	AF	-0.037	0.182	-0.035	-0.204	0.839
	BV	-0.208	0.152	-0.234	-1.364	0.180
	HB	0.596	0.184	0.611	3.241	0.002
	IN	0.314	0.141	0.363	2.231	0.031
4	1 (constante)	2.707	0.589		4.599	0.000
	AFFINIT	0.370	0.102	0.510	3.642	0.001
	BIENV	0.190	0.158	0.188	1.207	0.233
	HABILT	-0.121	0.133	-0.130	-0.913	0.366
	INTE	0.112	0.123	0.133	0.911	0.367

^{a*}: Variable dépendante : BE_Tot.

Legend: Affinit = Affinity (proxy for attachment; Bienv = benevolence; Habilet = abilities (competence); Intég (integrity); BE = interactional atmosphere between the negotiating parties. Variable dépendante = explained (dependant) variable. Coefficients standardises = standardized coefficients. Modèle = Model.

Table A4. Average values of main constructs.

Construct	BEFORE	AFTER	Difference % (rounded)
Trust	72	75	4 (n.s.)
Equilibrium	70	72	3 (n.s.)
Cooperation	69	78	12
Atmosphere	79	78	-1 (n.s.)

Legend: n.s. = not significant

Table A6. Cluster analysis in the AFTER negotiation.

Construct	Class		Difference in %
	1	2	
Affinity BEFORE	13.52	17.09	16
Trust BEFORE	4.50	5.22	16
Cooperation BEFORE	4.46	5.03	13
Atmosphere BEFORE	4.61	5.37	17
Predator/Prey (the reverse of perceived predation) AFTER	1.41	1.65	17
Affinity AFTER	13.12	17.61	34
Cooperation AFTER	4.71	5.75	22
Atmosphere AFTER	5.04	5.74	14
intention	5.39	6.54	21
Number of observations (25 are missing)	41	37	

Table A7. SEM values.

Adjustment indices (fit)	Key value	Actual values
Absolute index		
GFI	>0.9	0.833
Incremental index		
CFI	>0.9	0.900
IFI	>0.9	0.902
Parsimony index		
PCFI	The lowest comparative value	0.681

Table A5. The four groups BEFORE and AFTER the negotiation: perceived predation.

GROUP 1 Construct (PP)	BEFORE	AFTER	Difference % (rounded)
Value	1.27	1.82	43
Maximum	2.83	4.00	41
Minimum	0.71	2.00	182
Standard deviation	0.52	0.77	48
GROUP 2 Construct (PP)	BEFORE	AFTER	Difference % (rounded)
Value	1.22	1.43	17
Maximum	2.29	2.78	21
Minimum	0.86	0.92	7
Standard deviation	0.31	0.45	45
GROUP 3 (PP) Construct	BEFORE	AFTER	Difference % (rounded)
Value	1.40	1.44	3
Maximum	3.40	2.00	-40
Minimum	0.92	0.90	-2
Standard deviation	0.56	0.35	-38
GROUP 4 (PP) Construct	BEFORE	AFTER	Difference % (rounded)
Value	1.24	1.33	7
Maximum	1.89	2.45	30
Minimum	0.77	0.77	0
Standard deviation	0.30	0.43	43
AVERAGE Construct (PP)	BEFORE	AFTER	Difference % (rounded)
Value	1.28	1.50	17*
Maximum	2.60	2.81	8
Minimum	0.82	1.15	40
Standard deviation	0.42	0.50	19

* The KS and SW statistics show that normality is rejected, so that, technically, we cannot perform an independent t-test. If we nevertheless run the t-test, variances are assumed equal and the mean difference found to be significant.

